

OCI No. 2385/65

CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
28 September 1965

INTELLIGENCE MEMORANDUM

Aid to Pakistan

US Aid to Pakistan

1. Pakistani Finance Minister Shoaib's current visit to the US underlines his government's vital interest in securing the restoration of Western military and economic aid in the light of the costly Indo-Pakistani war.

2. Rawalpindi is apparently placing primary emphasis on the rebuilding of its military machine, although the Pakistanis have not abandoned their keen interest in the long postponed resumption of the World Bank Consortium pledging process. The chief of the US military assistance group in Pakistan has already been approached informally for the replacement of nine F-86s and two B-57s lost during the conflict. Shoaib told the US aid director in Karachi that military requirements are likely to set the economic development program back two to three years, but that Rawalpindi feels it must recover from a position in which severe shortages of military equipment render Pakistan unacceptably vulnerable to a renewed Indian attack.

USAID, OSD reviews completed

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3. Because of the war in the Punjab the US suspended military assistance program (MAP) deliveries to both India and Pakistan on 8 September. The US, in conjunction with other aid-giving countries, has also refrained from making its annual pledge of assistance to Pakistan's economic development program. The World Bank Consortium, under the auspices of which the US and eight other nations channel their economic aid to Pakistan, has postponed indefinitely its annual pledging session at which the Pakistanis hoped to raise \$500 million in assistance for the first year of Pakistan's Third Plan (1965 - 1970). Shipments of grain under the PL-480 agreement, which expires at the end of this year are continuing, as are commitments under existing economic development agreements.

4. Failure of the US to provide large-scale assistance to Pakistan would severely cripple Rawalpindi's economic and military efforts. The cut-off of MAP spares has already reduced the combat effectiveness of the armed forces. It is likely that a large share of the equipment inventory, particularly aircraft and tanks, are out of commission or able to operate only on an extremely limited scale because of a shortage of spares.

5. Pakistan's Third Plan for economic development, which may have to be considerably scaled down because of the war, will probably collapse completely in the absence of Western--particularly US--aid. Although the share of total development expenditures financed by foreign aid is to be reduced to 32 percent in the Third Plan (it was 38 percent in the Second Plan) the foreign exchange thus supplied is vital to the program. Pakistan hopes to receive about 1.5 billion from the US alone over the five years of the plan--in contrast to only \$150 million expected from Communist countries.

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6. The effects of a cutoff of further US aid would be somewhat mitigated in the short run by the continued inflow of aid already committed. As of 1 July 1965 about \$300 million remained in the pipeline and is not expected to be fully delivered for at least another year. PL-480 deliveries under the current agreement will carry the Pakistanis well into next year.

7. Nevertheless, Western aid has flowed into Pakistan over the past ten years at a level that cannot be matched from any other source, and made possible Pakistan's impressive economic development record. US aid through 1965 totals \$2.9 billion in economic assistance and \$732 million in military aid. Last year's pledge was \$212 million in grants and loans plus over \$150 million in PL-480 grain.* Pakistan is asking for \$500 million in Western assistance for the first year of the fourth plan, and hopes that the US will pledge more than \$200 million toward meeting this goal.

8. It is difficult to translate the effect of a threatened Western aid cutoff into political terms. It is likely, however, internal political pressures would force Ayub to resist strongly such pressure. Failure to do so could seriously undermine his position within Pakistan and could even set the stage for his ouster at the hands of highly irrational elements who are already incensed at the US failure to continue MAP deliveries during the war.

*The US has also pledged some \$428 million to the India-Pakistan Indus River development program. Pakistan hopes to spend nearly \$700 million on the project during the five years of the Third Plan.

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Soviet Aid to Pakistan

9. The USSR has delivered to Pakistan about half the \$75 million in economic credits extended, but Moscow has shown little interest in providing the large-scale economic and military assistance that the Soviets have given to India.

10. Aside from a few million worth of grain given to Pakistan in the mid-1950s, the Soviet economic aid program started in 1961 when the USSR extended \$30 million for petroleum exploration. Last year, the Soviets gave Pakistan an \$11 million credit for agricultural equipment. A further credit, for \$30 million, was given to the Pakistanis early this year. In addition, press reports indicate that Pakistan recently gave the Soviets a \$200 million shopping list of projects for their up-coming Five-Year Plan. The Soviets are reportedly studying the situation but are not known to have made further commitments. The USSR has given Pakistan no military aid.

11. By way of comparison, the Soviets have extended India over one billion dollars in economic aid and over \$430 million in military aid. Moscow is also capable of providing large-scale economic and military assistance to Pakistan--possibly as large as US aid--but in the past have put their money on India. It appears unlikely that they would risk their large investment in hardware and goodwill in India by beefing up their economic aid or starting a military aid program in Pakistan.

Soviet Aid Capabilities

12. During the last three crop seasons (1963 to 1965) when the USSR imported \$1.5 billion worth of wheat, it has continued some grain exports to Eastern Europe and Cuba (worth \$500 million) and filled Egypt's emergency needs by diverting to Cairo \$20 million worth purchased abroad when the US held up deliveries in June this year.

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13. In order to achieve an important political objective the USSR probably could offer to provide, by purchase abroad and re-export one million tons of wheat (worth about \$70 million) without too drastic an effect on its gold reserve, which now totals about \$1.5 billion.

14. The USSR currently is actually delivering annually only \$500 million in economic aid to the Free World. Moscow has demonstrated it is capable of fulfilling large military aid programs within one to two years of their conception. On an emergency basis, military aid has been supplied from Soviet operational units, later to be replaced by equipment produced under the plan for export.

ATTACHMENTS:

- a. General description of US military aid program to Pakistan--the US "Military Assistance Manual."
- b. Summary of military and economic assistance pledged to Pakistan.
- c. Sectoral allocations for Pakistan's second and third year plans.
- d. Previous commitments made to Pakistan under the auspices of the World Bank Consortium.

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ATTACHMENT A

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| MILITARY ASSISTANCE MANUAL PART I - OBJECTIVES | EFFECTIVE DATE 17 MAR 1965 | PAGE 21 |
| | REFERENCE MAM Transmittal I - 22 | CHANGE 13 |
| SECTION | CHAPTER 4. USC INCOMRAEPA | |

M. Pakistan

1. U.S. military assistance will be designed to assist in achieving the following objectives: (a) that Pakistan continues to maintain its pro-Western orientation and to contribute to the security of the free world,

(b) that Pakistan maintain military forces capable of: maintaining internal security, offering limited resistance to external attack, contributing to area collective security, providing token forces for collective security operations outside Pakistan, and of continuing to exert a pro-Western influence within Pakistan; (c) that there evolve ultimately a more friendly relationship between Pakistan and its non-Communist neighbors to promote greater stability and cooperation in South Asia; (d) that Communist pressure on and influence in Pakistan be limited to manageable proportions; (e) that Pakistan continues to develop economically; and (f) that it proceed to make the political progress necessary for increasing the strength and cohesion of the nation.

2. Military assistance will be planned and programmed in accordance with the following guidance:

a. Encourage frequent meetings between top U.S. and Pakistani military and defense officials and encourage continued close contact between U.S. military personnel and Pakistani officers.

b. Explore and actively promote means to enlist third country participation in maintaining Pakistan's pro-Western orientation and security cooperation to complement U.S. efforts, with special emphasis upon the British, in association with the Commonwealth and, perhaps, West Germany.

c. Encourage and stimulate defense production in Pakistan, including the supply of defense production equipment.

d. Planning, programming and delivery of new or prestige items to Pakistan should seek to minimize Indian incentive -- or excuses -- for parallel acquisitions for their forces.

e. Inform Pakistan, in advance of final action whenever possible, on new phases of U.S. arms assistance for India; and give the Pakistanis as frank a picture as possible of just what the United States intends to do for India so as to contain their uncertainty and exaggerated fears concerning the Indian defense program.

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| MILITARY ASSISTANCE MANUAL PART I - OBJECTIVES | EFFECTIVE DATE 17 MAR 1965 | PAGE 22 |
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| SECTION | CHAPTER 4. USCINCMEMAFSA | |

f. Demonstrate that, while still ready to assist Pakistan even in the context of a more independent Pakistani foreign policy, the United States cannot collaborate in projects which are of direct and significant advantage to the Communist world.

g. Make clear to Pakistani leaders that Pakistan's moving into what amounts to alignment with Communist China, whatever form such an arrangement might take, would jeopardize the whole fabric of present U.S.-Pakistani relationships, including U.S. assistance programs.

h. Consider offering credit sales for military items, with the actual amounts and types of items sold depending upon U.S. judgment of Pakistan's defense foreign exchange expenditures and the U.S. desire to gain more of the Pakistan market; possible harm to the Pakistan economy from diversion of scarce resources, coordination and integration with U.S. military assistance plans, potential reactions from India and other countries, and reduction of Pakistan anxieties.

3. U.S. military assistance will be planned and programmed in consonance with the following commitments:

a. By Aide Memoire dated 21 October 1954, the United States agreed, subject to the availability of funds and authority granted by Congress, to meet deficiencies in Pakistan's present (i.e., 1954) Army, Navy, and Air Force as follows:

(1) Army: 4 infantry divisions and 1 1/2 armor divisions.

(2) Navy: 3 destroyers; 2 Patrol Vessels, Frigate (PF); 2 Patrol Vessels, Gunboat (PG); 3 Minesweepers (AM); and, 2 Minesweepers, Coastal (AMC).

(3) Air Force: Three Fighter Bomber Squadrons (16 aircraft); one Fighter Interceptor Squadron (16 aircraft); one Light Bomber Squadron (20 aircraft); and, one Transport Squadron (20 aircraft).

b. By Aide Memoire dated 5 March 1960, the United States agreed:

(1) To assist in maintaining the present high standard of Pakistan's military forces and to provide for orderly and gradual improvement as obsolete or worn out equipment is replaced.

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(2) To complete the commitment contained in the Aide Memoire of 21 October 1954 by providing aircraft for a bomber squadron;

(3) To provide SIDEWINDER missiles as part of the FY 1960 Military Aid Program;

(4) To provide radar bombsights for B-57 bombers commencing with eight aircraft in the FY 60 aid program;

(5) To provide in the FY 61 program approximately ten F-104 aircraft with spares;

(6) Subject to Congressional appropriations, to consider further progressive modernization of requirements for tanks, and

(7) Subject to Congressional appropriations, to give sympathetic consideration to provision at an appropriate time of suitable replacements for the Pakistan Air Force transport squadrons.

c. In discussions between the Vice President of the United States and the President of Pakistan on 15 July 1961, confirmed by an Aide Memoire dated 4 August 1961, the United States, subject to the availability of funds and other authority granted by the Congress of the U.S. and subject to overall military and budgetary requirements:

(1) Agreed to the orderly modernization of the forces in the Aide Memoire of 1954 and 1960.

(2) Agreed to supply four four C-130 aircraft to Pakistan early in 1963;

(3) Indicated a willingness to furnish continued assistance for the Hunza type airlift on a reasonable basis until the four C-130 aircraft are delivered;

(4) Noted that a number of M-47 medium tanks will be included in the FY 1962 program;

(5) Envisaged including in future programs the remainder of the total requirement for M-47/M-48 tanks, a number of self-propelled 155 mm Howitzers, a substantial number of trucks, one L-23 fixed wing aircraft, a number of H-13 Bell observation helicopters and six H-43B KAMAN turbine-powered helicopters;

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| MILITARY ASSISTANCE MANUAL PART I : OBJECTIVES | EFFECTIVE DATE 17 MAR 1965 | PAGE 24 |
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| SECTION | CHAPTER 4. USCINCPACSEA | |

(6) Agreed to consider the request for equipping one battalion with armored personnel carriers;

(7) Agreed to study the request for a replacement of approximately 50% of the number of 106mm recoilless rifles with the SS-11;

(8) Agreed to study the request for additional SEAWIND launching gear for the F-86 inventory not so equipped; and,

(9) Favored in principle the establishment of a 30-day war reserve of ammunition but believed that force requirements for major equipment should be met before further consideration is to be given to a build-up of reserve stocks.

d. In discussions between the United States Secretary of Defense and the President of Pakistan on 25 September 1962, confirmed by an Aide Memoire delivered to Pakistan's Foreign Minister on 13 October 1962, the United States agreed, subject to the availability of funds and other authority granted by the Congress of the United States and subject to over-all military and budgetary requirements, to:

- (1) deliver 130 tanks, the majority to be M-48's, in FY 1963;
- (2) include 72 additional tanks in the FY 1963 program for delivery in FY 1964;
- (3) deliver 2,200 1/4-ton trucks and approximately 800 general purpose and support vehicles in FY 1963;
- (4) include an additional 1,500 vehicles in the FY 1963 program;
- (5) deliver 73 M-113 armored personnel carriers by June, 1963;
- (6) supply equipment and training for two additional companies in the Baluch Battalion;
- (7) provide paratroop capability for five companies of the Baluch Battalion;
- (8) explore the stated Pakistani requirement for additional paratroop units;
- (9) supply M-1 rifles in numbers adequate to meet the requirement for MAP-supported forces and provide for a "combat reserve";

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| SECTION | CHAPTER 4. USCINCPAC/AFSA | |

- (10) supply F-86F attrition aircraft to maintain the F-86F inventory at a level of 102;
- (11) deliver nine additional F-86F aircraft during FY 1963;
- (12) maintain and support the F-86F aircraft as long as necessary;
- (13) undertake, in cooperation with the Pakistan Air Force, to deliver spare parts adequate to maintain a satisfactory "in-commission rate" for both F-86 and F-104 aircraft (considered to be nine of the twelve F-104 aircraft);
- (14) supply F-104 attrition aircraft as required;
- (15) acknowledge the possibility of Pakistan's air transport requirements over and above the four C-130 aircraft to be delivered in the first half of 1963;
- (16) dispatch a survey team to Pakistan in November to assess Pakistan's over-all air transport requirements, in cooperation with the Pakistan Air Force;
- (17) send a survey team to Pakistan to study Pakistan's ground support requirements for air operations;
- (18) program eighteen H-13 and six H-43B helicopters during FY 1963; and.
- (19) program a submarine in FY 1963 with delivery scheduled in FY 1964.

ATTACHMENT B

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SUMMARY OF MILITARY AND ECONOMIC ASSISTANCE PLEDGED TO PAKISTAN, 1948-1965

| | <u>1948-62</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>Cumulative Total 1948-65</u> |
|-------------------------------|----------------|--------------|--------------|-------------|---|
| <u>Economic Aid</u> | | | | | |
| <u>Free World a/</u> | | | | | |
| US | 2,213.8 | 376.3 | 392.5 | 0 | 2,982.6 |
| Other | <u>834.8</u> | <u>230.2</u> | <u>218.5</u> | <u>24.0</u> | <u>1,307.5</u> |
| Total | 3,048.6 | 606.5 | 611.0 | 24.0 | 4,290.1 |
| <u>Communist Countries b/</u> | | | | | |
| USSR | 33.2 | 0 | 11.0 | 30.0 | 74.2 |
| Communist China | 0 | 0 | 60.0 | 0 | 60.0 |
| Other | <u>0</u> | <u>0</u> | <u>28.0</u> | <u>0</u> | <u>28.0</u> |
| Total | 33.2 | 0 | 99.0 | 30.0 | 162.2 |
| <u>Military Aid</u> | | | | | |
| <u>Free World a/</u> | | | | | |
| US | 50.5 | 62.2 | 56.5 | 0 | 732.3 |
| Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>174.9</u> |
| Total | 50.5 | 62.2 | 56.5 | 0 | 907.2 |
| <u>Communist Countries b/</u> | | | | | |
| USSR | 0 | 0 | 0 | 0 | 0 |
| Communist China | 0 | 0 | 0 | 0 | 0 |
| Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 0 | 0 | 0 | 0 | 0 |

- a. Fiscal year ending 30 June following year.
b. Calendar year

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ATTACHMENT C

SECTORAL ALLOCATIONS FOR
PAKISTAN'S SECOND
PLAN (1960/61 -1964/65)
AND THIRD PLAN
(1965/66 - 1969/70)

(Millions of Dollars)

| | (1) | | (2) | | (3) |
|-------------------|--------------------|---------|-----------------------|---------|--------------|
| | Second Plan (Est.) | | Third Plan (Proposal) | | Increase |
| | Amount | Percent | Amount <u>2/</u> | Percent | (2) over (1) |
| | | | | | Percent |
| Agriculture | 735 | 13.3 | 1,879 | 15.4 | 155 |
| Water and Power | 1,025 | 18.6 | 1,792 | 15.2 | 75 |
| Industry | 1,337 | 24.2 | 3,098 | 26.1 | 103 |
| Fuels & Minerals | 188 | 3.4 | | | |
| Transport and | | | | | |
| Communications | 944 | 17.1 | 2,125 | 17.9 | 125 |
| Housing <u>1/</u> | 818 | 14.8 | 1,508 | 12.7 | 84 |
| Education | 210 | 3.8 | 605 | 5.1 | 188 |
| Health | 83 | 1.5 | 279 | 2.3 | 236 |
| Manpower and | | | | | |
| Social Welfare | 17 | 0.3 | 59 | 0.5 | 258 |
| Works Program | 168 | 3.0 | 525 | 4.8 | 212 |
| Less Expected | | | | | |
| Shortfall | | | -945 | | |
| | | | | | |
| | 5,525 | 100.0 | 10,925 | 100.0 | 98 |

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Source:

And physical (town) planning.
Estimated from Third Five-Year Plan, March 1965.

ATTACHMENT D

PREVIOUS COMMITMENTS MADE TO PAKISTAN UNDER THE AUSPICES
OF THE WORLD BANK CONSORTIUM

U.S. \$ million equivalent

| | <u>1961/63</u> | <u>1963/64</u> | Additional Contri- butions <u>1963/64</u> | <u>1964/65</u> | <u>Total</u> |
|--------------------|----------------|----------------|--|----------------|----------------|
| Belgium | -- | 10.0 | -- | -- | 10.0 |
| Canada | 38.0 | 19.0 | -- | 23.6 | 80.6 |
| France | 25.0 | 7.0 | 3.0 | 10.0 | 45.0 |
| Germany | 80.0 | 27.5 | 12.5 | 38.1 | 158.1 |
| Italy | -- | 10.0 | -- | 10.0 | 20.0 |
| Japan | 45.0 | 30.0 | -- | 30.0 | 105.0 |
| Netherlands | -- | 6.6 | 2.2 | 4.4 | 13.2 |
| United Kingdom | 47.6 | 22.4 | -- | 22.4 | 92.4 |
| United States | 500.0 | 212.5 | -- | 212.5 | 925.0 |
| World Bank and IDA | <u>209.4</u> | <u>80.0</u> | <u>--</u> | <u>80.0</u> | <u>369.4</u> |
| Total | <u>945.0</u> | <u>425.0</u> | <u>17.7</u> | <u>431.0</u> | <u>1,818.7</u> |

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